

Case Study: InterContinental Hotels Group

Hotels, as part of the global tourism industry, have a responsibility to ensure that owners and hotel general managers understand and adopt responsible tourism practices. Hotels should also work with all relevant stakeholders involved in the travel and tourism sector to reduce the negative impacts and maximise the positive benefits of tourism.

InterContinental Hotels Group (IHG) recognises that running a successful hotel business and generating value for its shareholders also generates impacts for its stakeholders, especially in the areas of the environment and communities. These impacts are driven by all elements of the hotel lifecycle, and include:

- Design and construction
- Choosing local business partners and suppliers
- Providing lodgings, food and drink for our customers
- Recruiting and training our staff
- Sourcing food and disposable goods
- The creation of waste

InterContinental Hotels Group's corporate responsibility (CR) program in Australia, New Zealand and the South Pacific is one of the most comprehensive of its kind among competitors in this region, covering sustainability and community issues and initiatives at all levels of the organisation. The brands within the local IHG portfolio are Crowne Plaza and Holiday Inn as well as the flagship InterContinental hotels.

This program has a broad mandate of minimising the negative impact of IHG hotels on the natural environment, and making positive social contributions and furthering local economies.

At the end of the day, responsible business is good business. As a result of reducing reliance on natural resources and increasing our contributions to social and local economic issues, this program ensures IHG's hotels are run smarter, more efficiently and with a lower cost base.

Ultimately, IHG is seeking to change the way it does business, reducing its reliance on natural resources to make each of its ANZSP hotels more environmentally sustainable, and play a greater role in addressing community and local issues. For IHG the question of sustainability is fundamentally one of responsible business, both in terms of the impact the hotels have on natural and social environments, and in managing operating costs.

A good knowledge of the resources consumed and wasted in a hotel, and measurable steps to reduce that consumption and waste, are fundamental to improving operating performance as well as minimizing negative environmental impact.

The principal operating model for most of the IHG hotels in Australia is by way of agreements between the hotel building owners and IHG as manager and operator. One of the principal owners of IHG hotels in Australia and New Zealand is Eureka Funds Management. Eureka's approach on sustainability can be summarised in three ways:

Firstly Eureka invests in hotels on behalf of superannuation funds and so takes a long term view. Any investment needs to survive and retain its value into the future – and the more responsible the asset, the more value it will hold over time

Secondly, in addition to the significant evidence pointing to the environmental impact of climate change, as a fund manager Eureka also seeks to address the economic positives that stem from addressing resource consumption and waste. Signing on to the UN Principles of Sustainable Investment, for example, is an indication of Eureka's commitment in this regard. (see separate Eureka – UN PRI case study for additional insight into this aspect)

Thirdly, asset sustainability is going to be increasingly important over time to purchasers of those hotel buildings assets. As Governments and communities become more vocal on the need for sustainable buildings and building operations, and as mandates on the commercial property sector increase in number and scope, assets that do not have such plans in place will become less attractive as financial investments.

Eureka's newest project is a great example. InterContinental Melbourne The Rialto – which opened in December 2008 – has become the world's first hotel to be Green Globe certified according to EC3 Global's Retrofit Building Planning and Design Standard (BPDS).

InterContinental Melbourne The Rialto opened in late 2008 as the result of Eureka's \$60 million restoration of the historic The Rialto hotel. According to the BPDS assessment, every stage of the refurbishment – including design, planning, redevelopment and subsequent hotel operations – achieved the high ratings in energy, water and resource management and conservation, waste and pollution reduction and management, social responsibility and lower operating costs. Respect for and restoration of the site's historic features was also a factor.

As a result, the new InterContinental Melbourne hotel will now provide the international benchmark for retrofit hotels in terms of environmental, economic and social sustainability. This in turn, provides a case study for hotel asset investment – not only in managing resources during the design and construction process, but for delivering an asset with the lowest possible operating cost base.

Other examples of successful incorporation of sustainability at IHG hotels include:

- Crowne Plaza Melbourne won the 2009 Australian Hotels Association (AHA) Victoria 'Environmental Best Practice Hotel of the Year' award in mid May. This was in recognition of the hotel's three-year program of systematic reduction in water and energy consumption, and significant decreases in waste. Over the last 12 months in particular, the hotel has reduced water consumption by 15,000kL; guest room energy consumption has dropped by 30%; and waste has been reduced by a massive 77%.
- The Holiday Inn on Flinders in Melbourne, which pioneered the City of Melbourne's Savings in the City – Green Hotels program. By implementing low-cost initiatives to reduce waste to landfill and by working with charities to redistribute partially-used amenities and linen, overall waste was reduced by 80% within twelve months. Over the same period, it achieved a more than 11:1 return on investment based on cost savings versus cost of implementation.
- At the Crowne Plaza Alice Springs the installation of the largest roof-mounted solar panel array in the southern hemisphere was completed in early 2009 and will reduce the hotel's reliance on mains power by between 40-80%. The \$3.3 million installation was also a great example of combined public / private investment, with every dollar invested by hotel owner Investnorth Pty Ltd matched as part of the Australian Government's \$94 million Solar Cities Program.
- In Sydney, the Crowne Plaza Coogee Beach hotel owners, Eureka Funds Management, invested in an ozone laundry system after identifying significant potential savings in resources and labour. Within the first 12 months of operation, water consumption dropped by nearly 40%; gas consumption dropped by over 70%; electricity consumption dropped by over 52%; and laundry man hours decreased by over 12%. This translated into six-figure cost savings in the first year of operation alone, a multiple of the initial investment.

For IHG, hotels and their impact on our environment and communities remains the core CR business context issue. IHG recognises that how it responds to these challenges will shape its reputation as well as current and future business results. IHG's decision to make Corporate Responsibility part of the way it conduct business gives it a strategic framework in which to better manage our products, profits and Corporate Responsibility actions. How well it manages its products, profits and CR actions are the key drivers of IHG's overall corporate reputation and nowadays can generate the same level of interest from stakeholders as financial performance.

Regulatory changes have also made CR a critical component of effective corporate governance. These rules stipulate that directors must assume responsibility for environmental, employee, social and community matters. Public companies have the added requirement of including information on these issues in their annual business reviews.

Eureka Funds Management and IHG: Integrating sustainability into investment and operational aspects of hotel management

The integration of Environmental, Social and Governance (ESG) into hotel asset management and operations has historically not been as effective as it could be – partly because hotels are used and managed differently to other asset classes. Unlike office portfolios where building owners can secure long term tenants with common goals, hotel guests are generally short term and their interaction is entirely with the management company.

To help advance the ESG performance of its hotel investments, Sydney-based Eureka Funds Management (Eureka) has joined forces with global hotel operator IHG (InterContinental Hotels Group) to incorporate improved sustainability criteria across the asset and operational management activities of its hotels in Australia and New Zealand.

For Eureka, the incorporation of ESG principles into its asset management activities is fundamental to its commitment towards long-term sustainable and responsible investment. IHG is committed to improving the environmental and community impact of its hotels as part of its Corporate Responsibility strategy.

One key challenge facing hotel owners and managers, is delivering cost-effective environmental and social outcomes that do not detract from guest experience. To that end, each Eureka-owned IHG hotel has developed a Hotel Sustainability Profile (HSP) which covers building development and operational history; building performance metrics (energy, water, waste and greenhouse emissions); operational initiatives; and community engagement activities.

Each HSP is updated as hotel initiatives are progressed, forming a key part of asset reviews and overall performance KPIs with hotel and asset management teams.

One key benefit afforded by HSPs is the ability to better evaluate operational efficiencies and cost savings resulting from eco-inspired operational changes, based on hotel performance trend data. The success of these improvements at Eureka-owned hotels has led to IHG implementing the process across its network of hotels in Australia and New Zealand.

From there, IHG hopes to form a global hotel industry benchmark in managing the sustainability performance of hotels.

References:

InterContinental Hotels Group: www.ihgplc.com

IHG's Corporate Responsibility Report: www.ihgplc.com/index.asp?pageid=615

IHG's Innovation Hotel: www.ihgplc.com/innovation

Eureka Funds Management: www.eurekafm.com.au

Green Globe: www.GreenGlobe.org